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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 002044

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TAGS: [EAGR](#) [ECON](#) [EFIN](#) [ETRD](#) [PINR](#) [IZ](#)
SUBJECT: FOOD SUBSIDY REFORM AND WTO ACCESSION GAIN MOMENTUM

REF: A. BAGHDAD 2004 (NOTAL)

[1](#)B. BAGHDAD 1286 (NOTAL)

Classified By: EconMinCouns Tom Delare for reasons 1.4 (b) and (d).

[1](#)1. (C) Summary: Adnan J. Shareefi, Ministry of Trade Chief of Staff, told us June 14 that Trade Minister Al-Sudani would like to reform Iraq's Public Distribution System (PDS) by distributing only the most critical food ration items and gradually monetizing the PDS, hopefully starting later this year. Adnan told us he believes Prime Minister Maliki wants to continue phasing out the PDS, and that the GOI will likely again cut the PDS budget by 25% for 2007. He also told us Minister Al-Sudani will meet with business leaders later this month to discuss ways to stimulate private-sector development in Iraq's food distribution sector. On Iraq's progress towards WTO accession, Adnan noted that the GOI is close to 95% complete in responding to questions to its Foreign Trade Memorandum (FTM) and that a comprehensive review of WTO-related laws is underway to ensure WTO-compliance. End summary.

Means-Testing the PDS

[1](#)2. (C) Adnan J. Shareefi, Ministry of Trade (MoT) Chief of Staff, on June 14 told Econoffs and IRMO/Trade representative there is "a new vision for the Public Distribution System." (Bio Note: Adnan does not speak English. End note.) He said Minister Al-Sudani would like to target the PDS to the most needy Iraqis, and cut the food basket from 12 items to the most critical five -- flour, rice, sugar, cooking oil, and tea -- hopefully by year's end. (Currently, all Iraqis are entitled to receive the monthly food basket.) To make up for the seven cut items, the Minister would like to compensate the recipients with money.

[1](#)3. (C) Adnan told us Minister Al-Sudani would also like to implement monetization pilot projects in two provinces, probably Dahuk and Muthanna, also hopefully by the end of this year. The main challenge to monetization, says Adnan, would be Iraq's poor banking infrastructure. (Note: At the end of 2005, the GOI compensated all Iraqis for food-ration shortages experienced during the year. Iraqis cashed vouchers at Rafidan and Rashid state-owned bank branches. According to both GOI and USG officials, the program was successful despite small glitches in a few cities. End note.) Adnan said a major benefit to monetization would be the decreased opportunities for government corruption due to the downsizing of the massive PDS procurement bureaucracy. He told us the Minister envisions eventually combining the two PDS state-owned enterprises (SOEs) -- Foodstuffs and the Grain Board -- into one entity as the MoT draws down the PDS. Adnan also said the current Director Generals of the PDS SOEs, Kareem Abdul Fajer and Khalil Assi, will likely not

remain long in their positions; Minister Al-Sudani wants to appoint more qualified people.

Continuing the PDS Draw Down

¶4. (C) Adnan told us the Prime Minister's (PM) Office is the final decision-maker on any PDS reform actions. He said he believes PM Maliki wants to continue phasing out the PDS, and he believes the GOI will cut the PDS budget by 25% in 2007. (Previous GOI leaders, including Finance Minister Allawi and DPM Chalabi, had stated their intention of eliminating the PDS over a period of four years. The 2006 PDS budget of \$3 billion is 25% less than 2005. The 2005 budget was 20% less than 2004.) Adnan stressed that a precondition for eventual elimination of the PDS is successful implementation of the new Social Safety Net, which is administered by the Ministry of Labor & Social Affairs (MoLSA). (To date, the new Social Safety Net has enrolled approximately 500,000 Iraqi families, half MoLSA's 2006 goal of covering Iraq's poorest 20%.)

¶5. (C) Adnan told us Minister Al-Sudani plans to meet with business leaders, including heads of Chambers of Commerce in Iraq, later this month to discuss ways to encourage private-sector growth in Iraq's food-distribution sector. Adnan said Iraq's present policy on private-sector development is "not satisfactory." He gave an example of one ministry that wants to get involved in plastics manufacturing, and then said: "This isn't government's role. This should be a private-sector issue."

Progressing Towards WTO Accession

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¶6. (SBU) Adnan said Iraq has completed responses to approximately 95% of the questions from WTO member countries on its Foreign Trade Memorandum (FTM). He added that Minister Al-Sudani is anxious to speed up the process of answering the questions, but does not want to affect the quality of the process. Regarding the appointment of a WTO Ambassador, Adnan noted there is a review underway to select someone for the position, but that it would take time. He said Mohanad Ahmad Saleh is currently managing the ministry's WTO efforts on a temporary basis. Mohanad is also the Acting Director General (DG) for both the State Iraqi Trade Fair and Foreign Economic/Public Affairs. Adnan said that a review of Mohanad's responsibilities in the next couple of weeks would determine which position he will fully occupy for the long-term.

¶7. (SBU) Adnan told us the Trade Minister's Legal Department is currently reviewing GOI laws that are in conflict with the WTO, but he did not know specifically which pieces of legislation are being examined. Adnan noted that the Director Generals of the WTO inter-ministerial committee would also have legal and technical experts review the laws to ensure all ministries are on board with proposed changes. He added that the Council of Ministers would make the ultimate decision.

Embracing Reform

¶8. (C) Comment: Adnan and Minister Al-Sudani's position on PDS reform is a positive change from the previous Ministry leadership, which believed that both the PDS budget and the number of ration items should be increased. We are encouraged by Minister Al-Sudani's initiative in scheduling a meeting with business leaders to discuss ways to spur private-sector growth. And we are heartened by Adnan's

belief that PM Maliki wants to continue dismantling the PDS, and his expectation of another PDS budget cut for 2007. On Iraq's progress towards WTO, Adnan conveyed some basic knowledge of next steps, and it is encouraging that the Ministry of Trade is taking a leadership role. End comment.
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